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du Canada

**Discussion Paper No. 43**

**REVIEW OF TIER IIS: PLANNING PROPOSALS**

by

**Richard Paton**  
**February 1985**

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## Introduction

This report is a quick review of Tier II\* planning in the Office. It reviews the origins and evolution of Tier IIs in the Office and assesses the current approach to planning these government-wide audits. In addition it presents several proposals which could be used to improve Tier II planning.

There are three major changes currently under way that could affect the planning of Tier IIs and their relationship to Tier Is.

- i. The shift of Tier Is from a systems approach to more of a program approach to auditing.
- ii. The change from a cyclical approach (auditing departments comprehensively every five years) to a continuous approach of auditing specific programs or parts of the department each year.
- iii. The possibility of staggered reporting or separate reports.

A review of past Tier II audits and those planned for 1984 and 1985 indicates that the concept of Tier IIs has evolved considerably over the past five years.

As the Office modifies its approach to comprehensive audits and continues to develop more experience with government policy envelopes, it will be necessary to re-examine the role of Tier IIs in the Office and to focus on some of the planning questions that will emerge. It is therefore appropriate at this time to take stock and determine why we are doing Tier IIs; how they fit into the work of the Office what types of Tier IIs we should be doing and to determine how Tier IIs can best continue to contribute to our annual Reports.

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\*For the purposes of this report, Tier IIs have been defined as audits or studies which deal with a subject, issue, or function of government-wide concern. It does not include interdepartmental program audits.



## Background and Approach to the Study

Between 1978 and 1983, 20 Tier IIs have been completed in the Office:

Control and Accountability of Crown Corporations (1979)  
Government Initiative for Improved Management Practices (1980,  
1981, 1982)  
Accountability of Crown-Owned Corporations (1982)  
Government Contracting Practices (1982)  
Management of Telecommunications (1979)  
Energy Conservation in Government (1980)  
Management of Photocopying (1981)  
Management of Overtime (1982)  
Payroll Costs Management (PMC) (1979, 1981)  
Materiel Management (1980)  
Research and Development (1981)  
Performance Review and Employee Appraisal (1982)  
Constraints to Productive Management in the Public Service (1983)  
Program Evaluation (1983)  
Management of the Forecasting Process - Department of Finance  
(1983)  
Management of Computing (1983)  
Senior Financial Officer (part of Chapter I - 1983)

The Tier IIs have contributed significantly to the work of the Office, but they have also raised some problems. The purpose of this study is to look at some of the issues involved in planning Tier IIs and to present some proposals for improved planning of this aspect of our annual Reports. This study originated from a discussion of Tier II planning by the Executive Committee. The main issues it will address are:

- The planning process for Tier II audits.
- The co-ordination and scheduling of Tier II audits with Tier I audits.
- The criteria for selection of Tier II audits in the Office.
- Other issues relating to organization, responsibility or reporting of Tier IIs.

The analysis and proposals contained in this document have been co-ordinated with the work Audit Operations has been undertaking with respect to the overall audit planning process.



Four basic sources of information have been utilized for this study: a questionnaire which was circulated to principals; interviews with key people who are involved in Tier II audits; a review of the evolution of Tier IIs conducted by the Office over the past five years; and finally, a brief analysis of our current approach to planning Tier IIs in the Office.

### **Major Issues Relating to Tier II Studies and Audits**

Several issues were identified through the questionnaire and interviews with respect to Tier II audits.

**Purpose.** Several principals felt that the purpose of Tier IIs had changed over the past five years and that it was necessary to clarify their role vis à vis our mandate. Some principals noted that Tier IIs are sometimes the only practicable way to discuss "significant" questions which have government-wide significance and require central policy changes. Thus, they argued, they are an essential part of achieving our mandate.

**Selection.** There is some concern that Tier IIs are too dependent on the initiative of individuals or groups and that not enough emphasis is being placed by the Office on defining an overall strategy or set of priority issues to guide Tier I and Tier II work.

It was suggested that Tier IIs should be identified on the basis of an analysis of current issues, parliamentary interest and problems that the Office has identified through departmental audits. If this type of analysis was included in a strategic overview the Office would be in a better position to define what types of Tier IIs would best meet the needs of Parliament.

There was also some concern that not enough Tier II ideas were coming from audit teams and that more effort should be made to identify Tier II proposals in the course of auditing departments.



**Planning and Co-ordination.** Many people thought that Tier IIs represented a burden to departmental audits and created considerable problems such as:

- the unplanned demands of Tier IIs on comprehensive audits;
- the negative impact of Tier IIs on the resources of comprehensive audit teams;
- clearance problems that result from differences in the types of evidence and substantiation required for Tiers I and Tier II; and
- the problem of managing an integrated audit with a large number of Tier IIs involved in the department.

In addition, the report on the Evaluation of Comprehensive auditing noted that it is difficult to integrate government-wide studies and comprehensive audits with the current cyclical approach to auditing. It recommended that audit work be based more on significance than on a specific five-year cycle and that long-range plans be developed which clearly specified the integration of all audit activities.

**Scheduling of Tier II work.** In order to draw conclusions about the government as a whole, a Tier II audit requires that approximately seven to nine of the major departments be covered. This makes it particularly difficult to schedule the work of Tier IIs to fit the needs and requirements of Tier I work and vice versa.

The scheduling question is particularly difficult for Tier IIs where one or two of the key departments are critical to the sample for government-wide purposes. This highlights the need to co-ordinate the selection of departments or programs with Tier II plans. One Principal noted that Tier IIs were postponed or changed without consideration for their impact on other related studies or the overall reporting concerns of the Office.



**Efficiency in the use of resources.** Another problem identified with respect to Tier IIs was the demands they place on the resources of the Office at peak periods. Since a large part of the resources in the Office are consumed by attest work relating to the Public Accounts, we tend to have peak periods from January to July. In addition, comprehensive audit teams tend to be very busy during this period. It was suggested that Tier IIs that rely on field work by regional offices or support from the attest teams should complete the bulk of their work between August and January.

**Government-wide vs. department or program orientation.** There is inevitable tension between a departmental approach to auditing and the government-wide approach used in Tier II audits. The departmental approach audits the entity within the context of its priorities -- environment, constraints, etc. The government-wide study is generally concerned with general government systems or processes or central policies and often does not focus on specific departments or entities. This creates differences in the types of evidence each requires, the priorities and the reporting.

This can aggravate the problem of co-ordination when the Tier II study involves a major area within a given department. In cases where the issue is not material on a departmental basis, it is of less concern (e.g. photocopying, travel). Tier II audits which have recently reported their findings on departments can establish precedents for departmental audits and can affect their audit approach and flexibility.

**Process orientation of Tier IIs.** Some Principals noted that Tier IIs, by their nature, deal with specialized management functions and often focus on particular processes, procedures or policies (e.g. evaluation internal audit) without a complete or comprehensive understanding of the program involved. Because these audits deal with a specific subject or with central policies on a government-wide basis, standard criteria that can be applied to a number of different departments are necessary.



By auditing against these criteria it is expected to make a statement about the government as a whole. It was noted that this approach can result in two problems: (i) Good processes can easily be misinterpreted as good management because the Tier II teams cannot easily test the relationship between evaluation, internal audit, PCM systems and the actual operations of the department; (ii) Inadequate processes may be interpreted as inadequate management -- even when standard government-wide criteria may not be appropriate for a specific department.

On the other hand, the specialized nature of Tier IIs does enable the office to bring together considerable expertise to tackle complex issues which could not easily be audited in the context of a departmental audit (methodology and start-up costs would be high). Studies such as Material Management, Real Property, Payroll Costs Management and Management of Evaluation illustrate this point.

This problem highlights the need for close interaction between Tier II and departmental audit teams in areas where the subject is of major or critical importance to an audit entity. It also indicates that audit teams have to be careful about making judgements about particular management processes without the benefit of a comprehensive audit of other department activities.

Some Principals also noted that as functional groups become better developed, departmental audit teams tend to leave the auditing of specialized areas to them. This leads to problems in integrating the specialized work with other audit work. The current approach gets the work done, but neither the Tier I or Tier II Principal seems completely satisfied with the results.

**Tier IIs and Issues Themes.** Several Principals claimed that the Office could improve its process for identifying Tier IIs issues by considering the broader issues facing government and the concerns of Parliament in identifying them.

In addition, it was noted that a clearer orientation to issue areas would considerably assist the Office in identifying logical packages of Tier IIs and Tier Is and in scheduling co-ordinated audits.



## Types of Tier IIs Audits

The problems identified by the principals are not common to all Tier II audits. They vary considerably according to the type of Tier II (depending on its size, scope or nature). In addition, other important factors are the approach taken to the comprehensive audit (i.e., cyclical or continuing) and the requirement for co-ordination in relation to a common issue or subject (e.g., real property and DPW).

**Tier II audits can be broken down into several categories or types:**

**Financial management issues. (Such as cash management).** This type of audit can easily be integrated as part of continuing attest audits; consequently it raises few co-ordination problems.

**Special audits (administrative issues such as travel, overtime, photocopying).** These are often specialized audits dealing with an issue that is not material for any given department and which involves annual policies. Tier IIs have been a practical way to deal with these questions because of the need for a relatively special team to deal with many departments and audit work on annual policies. Some initial entry problems occur, but they do not affect in a major way the work of a comprehensive and can be separated from audit plans. One problem is, however, to ensure field work is done in low periods.

**Functional/subject audits.** These include areas such as EDP, Effectiveness and PCM where there are continuing groups which are responsible for special areas. In addition, they can include audits such as Real Property, Materiel Management, Efficiency or the functional area of Financial Management. A prime role of such audits is often to comment on central policies. They are complex, and because they often impact substantially on departmental audit teams, have to be planned carefully with departmental audits. These audits are often sensitive because they are directly addressing central government administrative policies.



**Theme/issue chapters.** The study on Constraints to Management and the work on Crown corporations can be put into this category as well as the chapter planned for next year on Public Accounts. This work is often of a general nature relating to a policy question and does not usually require the same amount of detailed audit work in departments as other Tier IIs. It is necessary, however, to have some examples or cases from audit work that relate to the theme. These audits/studies are also dependent -- as are Crown corporation audits -- on government policy developments or, as in the case of Constraints, are not predictable in terms of knowing what will result from the work. Consequently, a great deal of flexibility is required.

**Parliamentary request (high priority subject or follow-up).** There are not many examples of this type except perhaps contracting or IMPAC). This type can requires a very short time frame for planning and execution. Issues raised by PAC might require an eight month turn-around time or even less. This type of issue may also raise special requirements or for continuing reviews such as with IMPAC.

**Tier II projects (such as capital projects).** This type of Tier II audit is quite different from the others. In this type, work is done on projects rather than on a full government-wide study. For example, the audit work on capital projects is closely related to other Tier IIs such as Real Property and comprehensive such as DPW, DND and Transport and will reported as part of these chapters or in audit notes.

The main aim of this type of Tier II is to establish the methodology to deal with an important issue or question, and subsequently to integrate the audit methodology with on-going comprehensive audits. This type can evolve into a functional/subject Tier II audit.

#### **Present System of Planning Tier IIs in the OAG**

At the present time Tier IIs are initiated in the Office by individuals, functional groups, departmental audit teams, or the Executive. Tier II proposals



are developed on a modest budget of a few hundred hours and then presented to the Executive Committee for approval. Only the Executive Committee approves Tier IIs. Presentations are made to DAG/AAG meetings and principals' meetings to discuss proposed audits. This provides some opportunity for feedback and review.

The general experience to date is that some Tier IIs are approved only for a preliminary phase or pilot project and are then reviewed again by the Executive to determine whether they should be a full-scale audit. Audits are seldom if ever cancelled by the Executive after initial approval unless they abort themselves.

The decisions on Tier I and Tier II audits are recorded in the proposed annual Report contents which are usually projected for at least a two-year period. In considering the Tier II's, there are established criteria which are used to judge materiality, significance, interest, feasibility and reportability of the audit. In addition, the leadership of the audit is usually considered to be a key ingredient. The lead departments crucial to the Tier II are usually considered in the Tier II decision (for example R&D and NRC; Real Property and DPW; Material Management and DSS).

### **Advantages of the Present Approach**

The present approach has several advantages.

- It provides the Executive with the control it requires to determine which Tier IIs will be chosen and when they will be done.
- It provides considerable opportunity for individuals or groups to initiate ideas and "sell" them. This encourages creativity and ensures that the Executive is provided with a good range of ideas to work with.
- The use of the Report contents outline of comprehensive and Tier IIs audits provides some information for the Executive to assess the total package of active Tier I and Tier II audit proposals.



- In terms of co-ordinating Tier I and Tier II audits, the identification of lead department usually provides some basic links.
- It provides flexibility for planning and adjusting audit programs and for accommodating new initiatives.

### **Disadvantages of the Present Approach**

- Tier II ideas tend to be developed by individuals and functional groups rather than as an Office policy or strategy vis à vis the issues we should be tackling over a period of years.
- The focus on the present system is on approving individual components of the annual Report as opposed to planning the Report as a whole. This makes it difficult to link Tier I and Tier II audits into an integrated Report or to link Tier Is or Tier IIs with themes (beyond the link to the lead department).
- There does not appear to be a mechanism by which the total package of approved and proposed Tier IIs can be reviewed. Since they are usually considered individually, the Executive does not have the opportunity to look at the whole Report in the light of all the potential prospects. This mechanism used to exist in the Office through the planning committee.
- Tier I and Tier II audits operate largely as parallel functions. Once a Tier II becomes a chapter there seems to be very little impact or relationship with the departmental chapters. Even theme chapters do not link very well to other chapters in the annual Report. This highlights some of the difficulties of co-ordinating between different audit groups.
- At present there does not seem to be an up-to-date and complete inventory of proposed, approved, or potential issues that the Executive can utilize to scan possible Tier II subjects or to group related audits according to themes (see Appendix I for a sample). This type of approach is utilized in the GAO. Such an inventory can be based on findings from departmental audits, suggestions from functional areas, ideas of the Executive Committee, and topics which are of concern to PAC or Parliament. This inventory could include a brief description of issues, departments which should be included, and possible years for consideration. It could also provide a focus to draw out ideas from audit teams involved in departmental audits.
- Once the initial approval is granted for a Tier II, there is a very high probability it will become a chapter. If resources have been spent and the expertise and criteria developed, it is hard to stop the Tier II after the pilot stage or to report it in any other form than a full chapter.



## Proposals for Tier II Planning

**General approach.** The challenge for the Office in terms of improving the planning process for Tier IIs is to maintain the advantages of the present system (such as individual initiative, flexibility and Executive control) with the need to increase the information available to the Executive to plan the total group of Tier IIs that should be included in the annual Report.

The key characteristics of the present system that should be maintained are: emphasis on individual group initiative; flexibility to identify and select Tier II's as they arise; and, finally, the current control and approval by the Executive of all Tier IIs.

The key improvements that need to be made are:

- Introduction of a planning process which brings together for discussion, at least once a year, the total package of Tier II proposals with their expected costs.
- Development of an inventory of Tier IIs and issues that can be used to judge the significance of proposals and to provide an information base for planning.
- Establishment of a review process which enables the Executive to adjust Tier II reporting strategy as findings become known.
- Development of better tools to expand, contract, or eliminate Tier IIs on the basis of progress reports and to determine what priority they should receive in the annual Report.\*

So that the flexibility of the present system can be maintained, it is not proposed that the annual review mechanism be the exclusive time or forum for raising Tier II issues. The present approach, whereby any AAG or DAG should be able to sponsor a Tier II in the course of the year and present it to the

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\* This suggestion is closely linked to the proposals Alan Gilmore is making about the role of the Executive in judging significance for reporting.



Executive should also be continued. However, an annual meeting to review the total package and an inventory are essential first steps to being able to plan the total resources allocated to Tier IIs, their impact on Tier I's, and their overall contribution to the annual Report.

In accordance with this general approach, the following specific proposals are advocated for improving the planning of Tier IIs.

1. **Focus on the annual Report for planning.** The OAG has a natural advantage with respect to planning that few organizations have. Its ultimate work is essentially combined into only two outputs (i.e., the opinion on Public Accounts and the annual Report). For the purposes of planning Tier I and Tier II audits it is possible to use the annual report as the means to focus on what work the Office should be doing, in what time frame, and how it should be reported.

By using the annual Report as the focus for planning, and by linking other management systems in the Office to it, a simple and effective system of planning Tier IIs in the Office could be developed. (See Section 6 for proposed planning process.)

2. **Focus on issue groupings to guide selection of Tier II approvals.** The Office should identify several continuing themes or issue areas that it would like to explore over a period of several reporting years (e.g. tax expenditure regulation, Crown corporations). Rather than try to organize each Report into a single theme, it is more likely that they should all pursue several different issues with different levels of emphasis. For any given annual Report, some of these issues would be in the exploratory stages of development and others would be more fully presented. This approach also helps to build expertise in a few critical areas.

This issue strategy would allow for new issues to be developed while old ones are de-emphasized. It would also provide audit teams with some points of focus, but since there are a number of different issues that can be explored at any point in time it does not "force-fit" audit work to particular themes. For



example, the issue of tax expenditures could be raised in the Revenue Canada audit and taken up more fully in a later year. Issue areas should be reviewed annually on the basis of the strategic overview, audit work conducted throughout the year, and the experiences with and reactions to annual Reports.

One of the advantages of the issues strategy is that it helps put the planning of Tier IIs and Tier IIs in perspective. For any given issue area, there are a variety of options for exploring it over a period of several years. (See Chart A.)

CHART A

Year 1985\*

Approach/Attest Work	Exploratory Departmental Audit	Tier II Project 2-3 Departments plus Departmental	Tier II Government-wide	Theme Chapter
Issue 1	X		X	X
Issue 2				X
Issue 3			X	
Issue 4		X		
Issue 5		X		



Thus, for a given year the Office can pursue various issues with different degrees of emphasis. The major planning decision is to define the key issues and to determine which vehicles work best for those issues, given the proposed audits and expertise available. There are several potential issues the Office could consider, as illustrated by the inventory in Appendix I.

3. **The role of Tier IIs needs to be clarified.** The purpose of Tier II's should be clarified in the Office. It is recommended that Tier IIs continue to be recognized as an important component of comprehensive auditing for: addressing central policies or management processes; developing special expertise, methodology or experience in the Office; or dealing with questions which are "significant" only on a government-wide basis.

Tier IIs began as audits of across the board activities in Government. In these audits the audit entity was the federal government, and the Office focused on central policies or processes. With a more departmental orientation to auditing, the suitability of this approach for every special subject needs to be questioned. In many cases, Tier II work could designed to develops a special issue in close co-operation with several departmental audits but not to comment on the government as a whole. Such an approach might make it easier to link the objectives of Tier II and Tier I audits and could also be less expensive.

The Tier II project approach offers some potential in this respect. Tier II projects could be developed in a variety of issue areas (e.g., regulatory, services to the public, information, efficiency, inventory management). They could be done within the context of departmental audits and reported as part of departmental chapters. If there were significant findings in a number of departments, they could be reported in a general chapter reserved for Tier IIs or possibly in Chapter I. At a later date, if it were decided that a given issue required a full government-wide audit to comment on central policies or an issue of "significance", this could be organized.

4. **Human resources for Tier II's.** A key consideration in selecting and developing Tier IIs should be the acquisition of the skills to do the work. One of



the advantages of the present system is that Tier II projects do not get developed unless some individual is willing and able to do the work. However, if more emphasis were placed by the Executive on requiring Tier IIs in particular issue areas, the Office might need to develop or acquire the appropriate mix of skills. (Tax expenditure is an example.)

In addition to identifying the required skills, it is very important to plan the audit work so as to maximize the use of scarce expertise. For example, if issues are pursued in areas such as tax expenditures or regulatory agencies, a team should gradually build up expertise by undertaking a sequence of audits (i.e., starting small and dealing with most difficult and complex issues once the team has achieved the appropriate experience.)

**5. Reporting: options should be increased for reporting government-wide studies.** The Executive should be provided with better options with respect to reporting Tier IIs. Right now the main choices are: a separate chapter, Chapter I, or audit notes. Another alternative that should be provided when necessary is a special chapter that combines a number of Tier II reports. Alternatively, short chapters of three or four pages could be used to deal with limited issues, while major Tier IIs could be reported in regular length chapters. In addition, management reports or background reports could be used more extensively to report Tier II work.

**6. Information for planning Tier II's.** Finally, the Office should strive to develop a better information base from which to select, analyse, plan and co-ordinate Tier IIs and to ensure that they are reported in accordance with the overall Office strategy with respect to major issues.

At present there is no adequate inventory of potential Tier IIs or any basic analysis of how such potential Tier II's would relate to Tier I's. The work Bonnie Miller has done in pulling together basic information on the progress of audits is a good step in this direction and illustrates very well the importance of such information for planning purposes.



## A Proposed Tier II Planning Process

The present planning system for Tier IIs provides flexibility for the Office and a measure of control by the Executive. However, the planning process can be improved by undertaking comprehensive reviews of Tier II proposals in conjunction with plans for a given annual Report, and by improving the tools at the disposal of the Executive to select, monitor, and report Tier IIs.

There are four phases proposed for planning Tier II audits. These are organized so that the basic and most fundamental questions (i.e., strategic) are dealt with at the beginning of the process. As the process continues, the issues being considered are increasingly operational and tactical. By adopting this process, the Executive can provide broad direction in a co-ordinated way but, at the same time, can make continual adjustments based on new information and changing priorities as well as findings from audits.

In establishing this planning process, the DAG/AAG group should be used as a focus for initial discussions of Tier IIs. In addition, some consideration should be given to designating an individual to maintain an inventory of Tier II issues and identify for the Executive potential groupings of audits. In addition, this person could map out potential links and relationships between audits to support the Executive Committee in planning the Report. By developing better planning information on Tier IIs, the Executive will be in a much better position to review the total package of Tier IIs and to select and identify key priorities for any given year.

During the course of the interviews, several people suggested that a Planning Committee be established with a small secretariat. It was argued that such a Committee would be much smaller than the AAG/DAG groups and its meetings would provide a better opportunity for in-depth discussion and analysis of Tier II proposals. Others thought that a Committee would just establish another layer of bureaucracy and would stifle creativity and access to the Executive.



There are some merits to the Planning Committee idea. It should at least be explored further by the Executive.

**Phase I.** In the first phase, the broader questions of relevance and significance of Tier IIs should be considered, along with the total package of Tier IIs for any given year and its relationship to the total Report or Reports. This should be done early in the planning process when the Executive is beginning to consider the overall contents of the Report and the key issues.

The major planning tools to accomplish this should be: (1) the inventory of potential issues; (2) a strategic overview of some of the major questions that the Office will be facing; and (3) some specific ideas sponsored by members of the Executive for consideration. The major output of this phase should be an agreement to pursue various ideas for inclusion in the Report. Once this has been done, the Executive should accept certain Tier II proposals or put out a call for others that fit the general direction which has been agreed upon, but which does not exclude other ideas.

**Phase II: comprehensive review/selection of Tier II proposals.** The Executive is provided with presentations of Tier II proposals. These proposals are to a large extent approved or rejected, clearly reserving the option to the Executive to decide at a later date if and how it will be reported. Problems of co-ordination should be identified - but perhaps should be directed to individual DAG and AAG's to resolve. An important part of this review is to determine what types of Tier II's are being proposed (e.g., functional area; special administration; theme; project, etc.) and the implications of this type of audit for resources and co-ordination in the Office. In addition, considerable attention should be given to how the Tier II should be reported.

**Phase III: Review status of Tier II.** Some Tier IIs will require an update for the Executive -- particularly if they have been approved on a pilot basis or if there is additional information required to determine the scope, reporting year or relationship to other audit work. This is a critical decision point, because once an audit becomes a full-scale effort it will cost somewhere



between 5,000 and 10,000 hours to abort it. It should be judged "worthy of reporting" at this stage and "feasible" to proceed to the next stage. Potential key findings should be identified if possible. Phase III should also be considered a mid-point review, when the Executive would review the total Report.

**Phase IV: Review of main messages and report strategy.** The main messages for the Tier IIs should be reviewed along with those of other audits. At this point the Executive could decide that a Tier II was of major importance and significance and might even put more resources into it; or it could decide that it warranted little further work. The final decision could be made at this point with respect to what kind of reporting a Tier II should have. In this regard it is suggested that the Office should develop various alternatives to the chapter for reporting, such as a Management Report only; reporting as part of department chapters; audit notes (e.g. capital projects); reporting in a general chapter reserved for special studies or reporting a theme chapter.

#### **Proposed Framework and Questions for Selecting and Reviewing Tier II Audits**

To plan Tier IIs effectively in the Office, a number of critical elements could be brought together.

It is assumed in developing this proposed framework that the major questions for planning in this Office are: (1) what we want to convey in the report that is of interest to Parliament; and (2) what financial and human resources will be provided to a particular project; (3) how a Tier II will be co-ordinated with other Tier IIs and Tier Is to contribute to the total Report.

These major decision areas can be broken down into a number of sub-components relating specifically to Tier II audits. The following charts depict the key questions and information requirements that could be considered in planning and co-ordinating the selection of a group of Tier IIs, for any given annual Report.



## CHART 1

### FRAMEWORK FOR ASSESSING TIER II PROPOSALS

General Questions	Specific Questions	Information Requirements for Executive	
1. Why consider this Tier II?  How will it help Parliament in its work in scrutinizing/supervising Government or assist or improve management in Government?  How does it rank with approved, proposed and potential audits in terms of significance, relevance and interest to Parliament?  How does it fit within the priority areas identified by the OAG for the next few years?  Is the Tier II essential for commenting on central or government-wide issues or policies? Does it have to be government-wide?	Inventory of issues (e.g. program mg't issues, accountability issues, financial mg't or control issues, mg't of resources issues (e.g. computers, materiel, people), mg't process issues.  Review of parliamentary concerns (PAC questions, strategic overview).	Assessment of needs of Office in terms of new or continuing priorities (i.e. what cannot be done by normal departmental audits). This should be based on strategic overview.	Review of existing government work.



## CHART 1

### FRAMEWORK FOR ASSESSING TIER II PROPOSALS

General Questions	Specific Questions	Information Requirements for Executive
	2. How would the Tier II contribute to the annual Report or separate report?	<p>What kind/type of Tier II is proposed?</p> <p>How would the Tier II report (chapter, part of comprehensive audits, audit notes)?</p> <p>When would it report?</p> <p>What are the potential issues involved?</p> <p>How does the content of the Tier II relate to other Tier IIs and comprehensives?</p> <p>How does it contribute to any overall issue of concern to the Office?</p> <p>How does Tier II fit with other types of Tier IIs (i.e. mix of Tier IIs such as audit of administrative issues, functional areas; theme chapters, financial management areas).</p> <p>Audit proposal/Plan - describing type of Tier II, reporting strategy, and implications for other chapters. (See revised criteria for presentations.)</p> <p>Comparison of number of Tier IIs and Tier IIs, with overall balance of emphasis expected from report.</p> <p>Assessment of package of Tier IIs planned for a particular annual Report.</p>



## CHART 1

### FRAMEWORK FOR ASSESSING TIER II – RO OSALS

#### General Questions

#### Specific Questions

#### Information Requirements for Executive

<p>3. What are the co-ordination requirements with Tier I audits?</p> <p>4. How can it be done?</p>	<p>What departments are critical to carrying out the Tier II? What other departments require significant involvement?</p> <p>Are these departments conducting audits in the planned years?</p> <p>Can entry be arranged within the context of existing audit plans or will there need to be changes in priorities for departmental audits?</p> <p>Who will lead the Tier II group?</p> <p>Are the methodology and criteria available and can they be applied?</p> <p>Are there major unforeseen questions that could affect the approach, timing, contents of the audit?</p> <p>What is the scheduling approach?</p>	<p>Audit proposal/Plan</p> <p>Audit Proposal/Plan Three-year plan.</p> <p>Audit Proposal/Plan</p> <p>Audit Proposal/Plan Three-year plan.</p> <p>Audit Proposal/Plan</p> <p>Audit Proposal/Plan Three-year plan.</p>
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What are the requirements for:

- special skills
- methodology development
- auditability assessment
- links to other Tier IIs and Tier Is.



## CHART 1

### FRAMEWORK FOR ASSESSING TIER II PROPOSALS

General Questions	Specific Questions	Information Requirements for Executive
5. What will it cost?	What is the total budget for the Tier II?	Audit Proposal/Plan
6. When should Tier II be reviewed by Executive?	Will it require specialized personnel?  How will it affect the resources of other audits? In what time frame?  What is the resource consumption pattern expected (by quarter)?  Beyond the individual Tier II, what special requirements will it place on departmental audit teams?  What type of monitoring does the Executive Committee want for this project?	PRAMS  Work Sheets, Planning System (see Appendix 2).  What type of work is required before Tier II can be assessed again?  How should Tier II be monitored? Required review dates?



## Conclusions

By adopting the above planning proposals, some improvements can be made in the selection, planning and co-ordination of Tier II audits. The DAG/AAG meetings being held in this winter on Tier II proposals represent a first step toward reviewing the total package of Tier IIs in relation to overall office plans.

The next steps that will be required will be to develop an inventory of potential Tier IIs for the the next three to five years and a tentative plan and schedule for Tier IIs. This will need to be co-ordinated with strategic and operational plans.

This paper has been based on the assumption that the Executive would continue to review and approve all Tier IIs and would play the central role in planning, scheduling and monitoring Tier IIs. However, in order to adopt these proposals, some work will be required to define the roles of the Executive Committee and the DAG/AAG meetings in the planning process, as well as the roles of the various branches or a special committee.

The proposed planning process for Tier IIs should be an integral component of the overall audit planning process for the Office that is presently being developed by Audit Operations.



## Inventory of Tier II Audits

### 1. In Progress

Tier II audits that have been given approval by the Executive to proceed with the execution phase and are currently expected to report in 1985.

Capital Projects (not a Chapter)

Crown Corporations: Accountability to Government

Task Force on Government Summary Financial Statements

Fraud Awareness

### 2. Development/Proposal Idea Phase

Tier II audit ideas that are being explored or considered.

Staffing

Pensions (1985)

Tax Expenditure - Programs

Performance Measurement Systems

Regulatory Agencies

Boards (mentioned in 1983 annual Report)

Efficiency of Program Operations

Services to the Public

Materiel Management (Inventory Control)

Loan Guarantees and Insurance

Information Resource Management (mentioned in 1983 annual Report)

Duplication of Services Between Federal and Provincial Governments

Productivity and Morale in the Public Service

Compensation Determination



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#### 4. Wild or Undeveloped Ideas

- Use of Consultants in Government Departments
- Organization Design and Control (including Regional/HQ org.)
- Management of Senior Management Category (PCM)
- Management of Personnel Function (PCM)
- Management of Access to Information by the General Public
- Internal Government Services
- Management Training
- Examples of Excellence in Canadian Public Service Management
- Administrative Constraints to Productivity (Constraints Follow-up)
- Risk Management
- Forms Management
- Tax Revenues
- Bilingualism Programs
- Energy Conservation (follow-up)
- Fleet Management



**OAG Strategic Planning Information****Tier II and Special Audits**

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**A. Basic Information**      DAG/AAG/Principal Responsible:**1**

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Name of Audit/Study:

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Level/Type of Approval:      Reporting Year(s):

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**B. Audit Description**

1. Audit Approach

2. Primary Departments/Programs Involved

3. Reporting Strategy

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**C. Management Requirements**

Projected Estimated Cost (by Year)

Special Requirements for Methodology or Staff

Scheduling Options



## OAG Strategic Planning Information

## Tier II and Special Audits

Name of Audit/Study:

## Major Issues

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### Significance to Parliament or to Government or Public Interest

### **Materiality**

Risk

### Potential for Improvement



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